

GAO

Report to the Secretary of the Air Force

January 1990

AIR FORCE PROCUREMENT

Accuracy of Commercial Activity Study for Niagara Falls Air Force Reserve Base



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and sale is
permitted

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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-238325

January 25, 1990

The Honorable Donald B. Rice
The Secretary of the Air Force

Dear Mr. Secretary:

This report responds to a provision in the fiscal year 1990 and 1991 Defense Authorization Act, dated November 29, 1989, and a request by Congressman John J. LaFalce, dated November 2, 1989, that we report to you on our review of the accuracy of the 1989 commercial activity study at Niagara Falls Air Force Reserve Base and whether the study was conducted in basically the same manner and considered similar cost factors as a commercial activity study at a similar installation. Regarding the accuracy of the study, we were asked to determine whether the contractor underestimated the number of personnel needed to perform the required tasks and whether the estimated unemployment compensation costs for federal workers expected to be displaced is an allowable addition to the contractor's costs. On January 19, 1990, we briefed your staff on the results of our review.

RESULTS IN BRIEF

The commercial activity study for the Niagara Falls Air Force Reserve Base was conducted in accordance with the Office of Management and Budget's (OMB) Circular A-76 and the Air Force's implementing regulations. We found no discrepancies in the manner in which the Air Force conducted its study and in the Air Force's results. We also found no support that the contractor underestimated the number of personnel needed to perform base support services or that estimated unemployment costs for displaced federal workers should be considered as a specific addition to the contractor's costs. In addition, we examined another commercial activity study for a similar installation and determined that the way in which the studies were conducted and the cost factors that were considered were not significantly different.

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BACKGROUND

To implement OMB's Circular A-76, each government agency is to review its commercial activities once every 5 years to determine whether it is more economical to retain work in-house or to contract out for it. The Air Force reviewed base support services at the Niagara Falls Air Force Reserve Base and determined it would be more economical to contract out the services than retain them in-house. The cost comparison for Niagara Falls showed that the government would save about \$143,000 over a 3-year period by contracting out for the required base support services. As a result, the Air Force awarded a contract to Intelcom Support Services, Inc., scheduled to begin on April 1, 1990.

NUMBER OF PERSONNEL

Effectuated federal employees at Niagara Falls alleged that Intelcom underestimated the number of employees needed to perform the required base support services effectively. We found no support for this allegation. We examined the files of the Air Force technical evaluation team responsible for evaluating the proposals for the Niagara Falls base support services. The team had several concerns about staffing, including the number of staff needed for snow removal and fueling. As a result, Intelcom added five positions and their associated costs to its proposal. Intelcom's final bid included 62.4 full-time equivalent positions, 56 for the fixed portion and 6.4 for the indefinite portion of the contract. The team believed that Intelcom could satisfactorily perform the contract with this number of positions.

UNEMPLOYMENT COSTS

Effectuated federal employees at Niagara Falls also alleged that the government would incur unemployment costs of \$221,728 for federal employees who would be displaced when the base support services are contracted out. They further alleged that unemployment costs should be added to the cost of contracting. The OMB policy does not provide for unemployment costs to be specifically considered in a cost comparison, since, according to an OMB official, these costs are too unpredictable to forecast accurately. Consistent with this policy, Air Force Regulation 26-1 states that unemployment compensation is not to be included in A-76 studies. However, OMB and Air Force policies allow unemployment costs to be indirectly offset to some extent in the cost comparison by the addition to the contractor's costs of 10 percent of the in-house personnel related costs.

Unemployment costs are not only difficult to predict, but they appear to be minimal. For example, in 1985 we reported¹ that we queried 129 involuntarily separated government employees as a result of 31 decisions to contract out. Responses from 94 showed that 53 received some unemployment compensation and/or public assistance. We estimated that these individuals received a total of \$215,000. Therefore, we concluded that it was unlikely that any of the decisions to contract out would have been different if these costs had been included in the cost comparisons.

COMPARISON WITH SIMILAR
COMMERCIAL ACTIVITY STUDY

We compared the Air Force's commercial activity study for Niagara Falls with the study for Minneapolis-St. Paul Air Force Reserve Base and found no significant differences in the manner in which the studies were conducted or the cost factors that were considered. Intelcom was the low contract bidder at Minneapolis-St. Paul and at Niagara Falls. However, the cost comparisons showed it was more cost effective to retain the services in-house at Minneapolis-St. Paul, whereas at Niagara Falls it was more cost effective to contract out for them.

We found that the in-house bid and Intelcom's bid were lower at Niagara Falls. The in-house bid for Niagara Falls included three fewer positions and was \$452,000 less than the in-house bid at Minneapolis-St. Paul. Intelcom's bid for Niagara Falls included more staff-hours and a higher profit rate than its bid for Minneapolis-St. Paul but was lower in price because of the lower wage rates at Niagara Falls.

The primary difference between the two studies was because Niagara Falls has much lower one-time conversion costs than Minneapolis-St. Paul. Conversion costs are added to the contractor's costs in a commercial activity study and consist of such factors as severance pay, relocation and homeowner's assistance, and retraining. Conversion costs are related to the characteristics of the in-house personnel performing the function under study. For example, severance pay is commensurate with salary, years of service, and age.

¹DOD Functions Contracted Out Under OMB Circular A-76: Cost and Status of Certain Displaced Employees (GAO/NSIAD-85-90, July 12, 1985).

At Minneapolis-St. Paul an estimated 31 people would receive severance pay totaling \$342,000, whereas at Niagara Falls an estimated 27 people would receive \$194,000.

SCOPE AND METHODOLOGY

To respond to the Defense Authorization Act and the Congressman's request, we agreed with congressional staff to concentrate on (1) reviewing the number of personnel Intelcom plans to apply to the contract, (2) determining whether unemployment compensation costs for displaced federal employees is an allowable addition to the contractor's costs, and (3) determining whether the commercial activity studies for Niagara Falls and Minneapolis-St. Paul were conducted differently or considered different cost factors. We reviewed appropriate documents and interviewed officials at Air Force Headquarters, Washington, D.C.; Air Force Reserve Headquarters, Warner Robins Air Force Base, Georgia; and Niagara Falls Air Force Reserve Base, New York. We also met with Intelcom officials, Niagara Falls Air National Guard officials, and Niagara Falls employee and union representatives.

We conducted our review from November 1989 to January 1990 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations and on Armed Services; Congressman John J. LaFalce; the Secretary of Defense; the Director, Office of Management and Budget; and other interested parties.

Please contact me at (202) 275-4268 if you or your staff have any questions concerning this report. Other major contributors to this report are Carl F. Bogar, Assistant Director, National Security and International Affairs Division, Washington, D.C.; and Raymond P. Griffin,

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Evaluator-in-Charge, John D. Carrera, Evaluator, and
Joseph L. Santiago, Evaluator, New York Regional Office.

Sincerely yours,

A handwritten signature in cursive script, reading "Nancy R. Kingsbury". The signature is written in dark ink and is positioned above the typed name.

Nancy R. Kingsbury
Director
Air Force Issues

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